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**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 22 July 1978

CG NIDC 78/170

DIA review(s) completed.

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**NATIONAL SECURITY INFORMATION**

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LATE ITEM

BOLIVIA: Pereda Takes Over

25X1 [ ] *New Bolivian President Juan Pereda faces the prospect of further turmoil, although the situation in Bolivia now appears calm. Pereda, a retired Air Force commander, assumed the presidency from a military junta last night after President Hugo Banzer resigned in the wake of a one-day revolt.*

25X1 [ ] The rebellion, triggered by an earlier decision to annul last week's presidential election in which Pereda had been the official candidate, began early Friday in Santa Cruz Province, some 600 kilometers east of La Paz. Civilian groups, some Army men, and virtually the entire Air Force supported the movement. It is still not clear whether Pereda was part of the rebellion from the outset or associated himself with the rebels only after they began to gain momentum. At one point Pereda reportedly sought to persuade the dissidents to drop their demands.

25X1 [ ] Earlier in the week Bolivia's electoral court--at the request of Pereda--annulled the results of the 9 July balloting and called for a new election within six months. The government so acted after a storm of protest from defeated opposition candidates, who denounced the regime's blatant rigging of the procedure.

25X1 [ ] It is anything but certain that Army officers will acquiesce in the ascendancy of an officer from the Air Force, which they regard as a lesser service. Moreover, the same civilian candidates who denounced Pereda's election "victory" last week can be expected to begin agitating against him unless they are quickly exiled. These leaders--notably ex-Presidents Paz Estenssoro and Siles Zuazo--collectively have a considerable following and can easily create problems among politically volatile groups such as miners and students. [ ]

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National Intelligence Daily Cable for Saturday, 22 July 1978.

The NID Cable is for the purpose of informing senior US officials.

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OPEC

LEBANON: Franjiyah Plotting

25X1 [ ] Former Lebanese President Sulayman Franjiyah is building up his forces in preparation for attacks on the Phalanges militia in northern Lebanon.

25X1 [ ] Franjiyah has been bent on revenge against the Phalangists, led by the Jumayyil family, since they murdered his son Tony in June. Supporters of the Franjiyah family have been assembling at its traditional stronghold at Zgharta since then. Franjiyah, a Maronite Christian, has been lining up support for his cause among local Muslim leaders as well as Christians in the north.

25X1 [ ] Lebanese press reports indicate that followers of the Franjiyahs and the Jumayyils are already going at each other. The home of a Franjiyah ally was rocketed on Wednesday, and a Phalangist official who participated in the assassination of Tony was "arrested" by Franjiyah forces on Thursday.

25X1 [ ] It is unlikely that the Syrians are actively encouraging Franjiyah to take the initiative against the Phalanges at this time. According to the Phalanges radio, the Syrians yesterday began talks with Phalanges leader Pierre Jumayyil to attempt to work out their differences. Nonetheless, President Assad may be preparing Franjiyah in order to be able to open another front if fighting breaks out again in Beirut.

25X1 [ ] Whatever the Syrians' military intentions are, supporting Franjiyah fits in with their political strategy of forming an alliance of Lebanese factions opposed to the Phalangists. Franjiyah met with Muslim Druze leader Walid Jumblatt last weekend, probably with Syrian encouragement. Jumblatt and Franjiyah would form the basis of a Syrian-backed front.

25X1 [ ] Franjiyah needs little encouragement from Syria to attack the Phalangists, and probably could not be restrained by the Syrians from striking when he feels it opportune. The US defense attache in Beirut reports widespread rumors that Tony's body has not yet been interred--a sign among Lebanon's warring Christian clans that revenge is to come. The attache speculates that Franjiyah may combine an attack on Phalangist villages in the Batrun area or the Bekaa Valley with an assassination attempt against the Jumayyils. [ ]

25X1

PORTUGAL: Government May Fall

25X1 [ ] *Portugal's two-party coalition may fall this weekend unless leaders of the parties can find a face-saving compromise on differences over domestic policies. The parties--the Socialists and the Center Democrats--have failed to resolve their differences after several weeks of negotiations.*

25X1 [ ] The crisis was caused by the government's failure to convince the public that it is any more effective than Prime Minister Soares' first government and by discontent over austerity measures it has instituted. Lately the situation has intensified over the Center Democrats' demands for the resignation of the Agriculture Minister and the government's failure to implement an agrarian reform program calling for return of properties illegally occupied in 1975. Soares reportedly feels that he cannot give in to the latter demand.

## USSR: Kulakov Funeral Attendance

25X1 [ ] *The failure of senior Soviet leaders to attend the funeral of their Politburo colleague, Fedor Kulakov, on Wednesday appears related to differences between Kulakov and President Brezhnev that surfaced earlier this year. Succession politics may have been an important element in these differences. The slighting of Kulakov in death may be intended as a message to other ambitious younger members of the leadership.*

25X1 [ ] Kulakov died suddenly of a heart attack Monday night; his body lay in state on Tuesday and the funeral was held the following day. Party Secretary Kirilenko was the highest ranking Soviet official at the funeral rites. Brezhnev, Premier Kosygin, and senior Party Secretary Suslov as well as several lesser members of the Politburo were absent.

25X1 [ ] The failure of these leaders to attend was a sharp break with precedence. Marshal Grechko's Politburo seniority was not as high as Kulakov's; his funeral in the spring of 1976 was attended by all the Moscow-based Politburo members.

25X1 [ ] When Kulakov died, Brezhnev was at his vacation retreat in the Crimea. It is possible that Brezhnev's poor health made the trip to Moscow seem unwise for him. His long meeting in the Crimea with Czechoslovak party leader Husak the day after the funeral indicates, however, that Brezhnev must have been in reasonably good shape.

25X1 [ ] Whatever the reason, Brezhnev's decision not to attend the rites could conceivably account for the decision of the other vacationing leaders also to stay away. Some Soviet leaders may have thought a major turnout would call too much attention to the missing Brezhnev. Their absence, however, served to compound the snub. In the end, the rather thin turnout seemed to comprise just the leaders who were in Moscow at the time--except for two members of Kulakov's generation, Leningrad party boss Romanov and Belorussian party boss Masherov.

25X1 [ ] The trouble between Brezhnev and Kulakov came to light earlier this spring when Brezhnev seemed to be rather pointedly trying to cut Kulakov down to size in the face of efforts by Kulakov and others on his behalf to try to broaden

his leadership credentials. A sharp drop in Kulakov's protocol standing within the leadership in the ensuing months seemed further to reflect Brezhnev's displeasure.

[ ] There is some evidence that Brezhnev was dissatisfied with Kulakov's supervision of the execution of agricultural policy from the Secretariat, and he may have been seeking a scapegoat for continued poor agricultural performance and persistent food shortages. There were some little digs in Brezhnev's report on agriculture to the Central Committee plenum that tend to support this--a slighting reference to the work of the Central Committee's Agriculture Department, which Kulakov supervised, and a critical reference to his former regional bailiwick, Penza Oblast.

[ ] Perhaps the most significant aspect of the whole affair is that Brezhnev evidently was unwilling or unable decisively to undercut Kulakov. Kulakov had a key position in the leadership. He was the only one of the younger generation to hold a seat on both the party Secretariat and the policymaking Politburo. As a result, he was in an advantageous position to move up eventually to the top leadership.

[ ] It is also evident that Kulakov must have had considerable backing from other members of the leadership. The conflicting signs of his political standing since early spring strongly suggest contention within the leadership. Kulakov's death is not likely to eliminate this contention, as the events surrounding his funeral indicate.

#### ECUADOR: Presidential Election

[ ] *//Ecuador's ruling Supreme Council may be planning to alter the result of last Sunday's first-round presidential election in an attempt to deprive populist candidate Jaime Roldos of a victory in the September runoff. The margin of Roldos' plurality, plus the prospect of support from parties of the left, make such a plot unlikely to succeed unless the government resorts to fraud in the second round.//*



25X1

[REDACTED] //The Council--President Poveda, Army Commander Duran, and Air Force Commander Leoro--are reported to have decided earlier this week that they will allow Roldos to participate in the runoff and to take office if elected. They also decided, however, to use all legal and financial means available in an effort to deny him the presidency, and to handpick his runoff opponent--by manipulating the first-round election returns, if necessary.//

25X1

[REDACTED] //The Council is said to be undecided whether to back center-right National Constitutionalist Front candidate Sixto Duran-Ballen or the center-left Liberal Party's standard bearer, Raul Huerta. Duran-Ballen was leading Huerta for the second runoff spot by 19,000 votes, with some 100,000 still to be counted, when announcements of the vote tabulation were abruptly halted a few days ago.//

25X1

[REDACTED] //Huerta is considered the stronger candidate because he probably could pick up most of Duran-Ballen's votes while challenging Roldos' strength on the center-left. The military triumvirate was due to make its decision yesterday after consulting with its political advisers.//

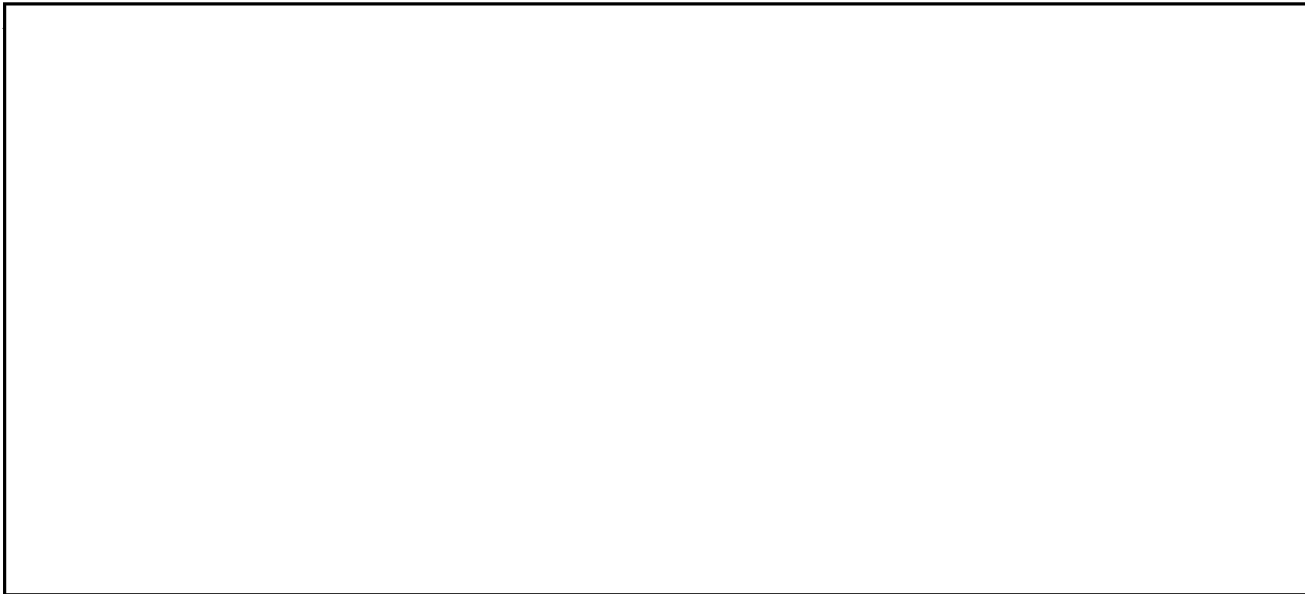
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[REDACTED] //Whichever candidate the Council backs, Roldos' 31-percent plurality in the first round places him in a commanding position to obtain a majority. He is gaining important additional support and appears certain to add the Democratic Left's 11 percent to his plurality. The Leftwing Broad Front's 5 percent should also end up in his column. Huerta, but not Duran-Ballen, could compete with Roldos for the votes of the Radical Alfalist Front, which total 9 percent. [REDACTED]

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[REDACTED]



UK: Ceiling on Wage Increases

*[Redacted] //UK Chancellor of the Exchequer Healey's announcement yesterday of a 5-percent ceiling on wage increases during the next round of pay negotiations, which begins on 1 August, could seriously strain relations between the minority Labor Party government and the trade unions just before a general election expected in mid-October. The Conservatives, while not condemning the policy, have offered what they argue is a more flexible and realistic alternative.//*

*[Redacted] //The new ceiling replaces the 10-percent wage limit in effect for the past year. Wage controls--part of the government's economic program since August 1975--were largely responsible for the fall in the inflation rate to 7.4 percent last month, the lowest in six years.//*

*[Redacted] //Immediate reaction has been mixed, but several important trade unions--such as the National Union of Miners and the Transport and General Workers' Union--generally do not favor government limits on wage increases and specifically oppose so low a ceiling. The Trades Union Congress, which is under union pressure to reject the government's position, is unlikely to support the new guidelines but probably will still endorse a broad alliance with the Labor Party soon in anticipation of a fall election.//*

25X1 [ ] //Wage hike restrictions, along with union demands for a 35-hour week, will probably be the major issues of debate at the annual conference of the Trades Union Congress in September and are likely to shape relations between the Labor Party and the unions going into the election.//

25X1 [ ] //Many Labor members of Parliament argue that the government's stand will hurt them in a general election, especially because the government appears willing to single out some workers for substantially higher settlements. Prime Minister Callaghan has recommended that the salaries of top civil servants and officials of nationalized industries be increased by an average of 31 percent over the next two years.//

25X1 [ ] //The Conservatives have announced that they support free collective bargaining for workers in the private sector and would tie wage settlements in the public sector and among nationalized industries to increases in efficiency and productivity. [ ]

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#### BRAZIL: Leading Steel Expansion

25X1 [ ] *Brazil will create more new steel capacity through 1985 than any other non-Communist country; it will become self-sufficient and have exportable surpluses of competitively priced steel. As steel production grows, the extensive protection and large incentives given the domestic steel industry are likely to become a contentious issue between Brazil and other major steel-producing countries.*

25X1 [ ] The Brazilian Government has placed a high priority on the development of a steel industry in order to exploit its huge reserves of top-quality iron ore. The major goal is self-sufficiency in steel production, with a 20-percent margin to cover demand peaks and maintain moderate export earnings.

25X1 [ ] Although Brazil is still a net steel importer, it has made sizable exports in some years, largely reflecting temporary surpluses in certain products as new capacity comes on stream. Such exports are promoted by subsidies and tax incentives amounting to one-fourth of export value.

25X1 [ ] We expect Brazil to reach about 25 million tons of installed steelmaking capacity by 1985, compared with 11.2 million tons at the end of last year--even though there has been some retrenchment in plans because of declining foreign investor interest and domestic austerity. At least one-fourth of the new capacity will be export-oriented.

25X1 [ ] Annual steel production will be growing much faster--11 percent--than will domestic demand at 8 percent, providing Brazil with an exportable surplus of about 4 million tons in 1985. Existing agreements call for Japan and Italy to absorb about a million tons of the anticipated surplus. The US market will be an attractive target for the remaining 3 million tons.

25X1 [ ] Although 4 million tons will not loom large in world steel trade, growing Brazilian exports, aided by an array of incentives, may well lead to dumping charges against Brazil as it penetrates developed-country markets. Expansion behind protective tariffs, moreover, is gradually closing the once-lucrative Brazilian market to foreign exporters. The government considers protection and export incentives a necessary part of its import substitution and export promotion programs and will accede only grudgingly to demands for modification of its policies. [ ]

BRIEFS

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OPEC

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[REDACTED] //According to a press report from Kuwait, a special OPEC committee of financial experts has recommended that OPEC oil prices be pegged to a basket of international currencies in order to mitigate further losses in purchasing power caused by the decline of the US dollar.//

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[REDACTED] //The recommendation would have to be acted on by OPEC governments at the next scheduled ministerial conference this December in Abu Dhabi, or at an extraordinary meeting that could be called by the current president of OPEC, Kuwaiti Oil Minister Ali Khalifa al-Sabah. In June 1975, OPEC oil ministers agreed in principle to peg oil prices to the Special Drawing Rights used by the International Monetary Fund, but the plan was never implemented.//

25X1

[REDACTED] //Pegging oil prices to a basket of currencies would not immediately put pressure on the dollar. Assuming no substantial shifts in the dollar's value, oil prices would undergo only small changes. Payments for oil would still be made in dollars. [REDACTED]

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